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MONTROSE COMMUNITY SCHOOLS MONTROSE, MICHIGAN

FINANCIAL STATEMENTS JUNE 30, 2008

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3a-3j
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Fiduciary Funds:	
Statement of Fiduciary Net Assets	10
Statement of Changes in Fiduciary Net Assets	11
Notes to Financial Statements	12-24
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	25

TABLE OF CONTENTS

	<u>Page</u>
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Nonmajor Governmental Funds	27
Schedule of Bonded Indebtedness	28-30
Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with Government Auditing Standards	31-32
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	33-34
Schedule of findings and questioned costs	35-36
Schedule of expenditures of federal awards	37-38
Notes to the schedule of expenditures of federal awards	39



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

Independent Auditors' Report

October 17, 2008

To the Board of Education
Montrose Community Schools
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montrose Community Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montrose Community Schools as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

To the Board of Education
Montrose Community Schools
October 17, 2008

In accordance with Government Auditing Standards, we have also issued a report dated October 17, 2008 on our consideration of Montrose Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montrose Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

Our discussion and analysis of the Montrose Community Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008.

Financial Highlights

The School District's net assets decreased by \$51,558. Program revenues were \$2,955,871 or 18% of total revenues, and general revenues were \$13,770,513 or 82%.

The General Fund reported a positive fund balance of \$2,153,837.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montrose Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

MONTROSE COMMUNITY SCHOOLS

Management's Discussion & Analysis

For the Year Ended June 30, 2008

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2008 and 2007:

Exhibit A	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 6,108,774	\$ 5,721,389
Capital assets - net of accumulated depreciation	6,771,662	7,204,080
Total assets	12,880,436	12,925,469
Liabilities		
Current liabilities	4,170,664	3,437,775
Long-term liabilities	9,923,240	10,649,604
Total liabilities	14,093,904	14,087,379
Net Assets		
Invested in property and equipment - net of related debt	(3,715,425)	(3,906,471)
Restricted	353,264	353,456
Unrestricted	2,148,693	2,391,105
Total net assets	\$ (1,213,468)	\$ (1,161,910)

MONTROSE COMMUNITY SCHOOLS

Management's Discussion & Analysis For the Year Ended June 30, 2008

The analysis on the previous page focuses on net assets (see Exhibit A). The School District's net assets were (\$1,213,468) at June 30, 2008. Investment in property and equipment, net of related debt totaling (\$3,715,425), compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use those net assets for day-to-day operations.

The \$2,148,693 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net assets for the years ended June 30, 2008. Exhibit B provides a summary of the School District's operations for 2008 and 2007.

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

	Governmental Activities	
	2008	2007
Exhibit B		
Revenues		
Program revenue:		
Charges for services	\$ 563,681	\$ 493,904
Grants and categoricals	2,392,190	2,368,516
General revenue:		
Property taxes	1,777,981	1,655,395
State foundation allowance	11,661,287	11,720,915
Other	331,245	401,278
Total revenues	16,726,384	16,640,008
Function/Program Expenses		
Instruction	8,965,991	8,735,204
Support services	5,734,343	5,148,944
Community services	140,739	118,925
Food services	645,920	649,548
Athletics	313,871	318,632
Interest on long-term debt	538,260	566,742
Amortization of bond issuance costs (unallocated)	6,400	6,400
Depreciation (unallocated)	432,418	435,834
Total expenses	16,777,942	15,980,229
Increase (Decrease) in Net Assets	<u>\$ (51,558)</u>	<u>\$ 659,779</u>

MONTROSE COMMUNITY SCHOOLS

Management's Discussion & Analysis For the Year Ended June 30, 2008

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$16,777,942. Certain activities were partially funded from those who benefited from the programs, \$563,681, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,392,190. We paid for the remaining "public benefit" portion of our governmental activities with \$1,777,981 in taxes, \$11,661,287 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District had a decrease in net assets of \$51,558. The major reason for the change in net assets was the result of increased instructional and support services expenditures.

The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$2,609,360, which is lower than last year's total of \$2,841,905. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2008 and 2007.

	<u>Fund Balance</u> <u>June 30, 2008</u>	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,153,837	\$ 2,346,370	\$ (192,533)
Special Revenue	102,259	142,079	(39,820)
Debt Service	353,264	353,456	(192)
Total	<u>\$ 2,609,360</u>	<u>\$ 2,841,905</u>	<u>\$ (232,545)</u>

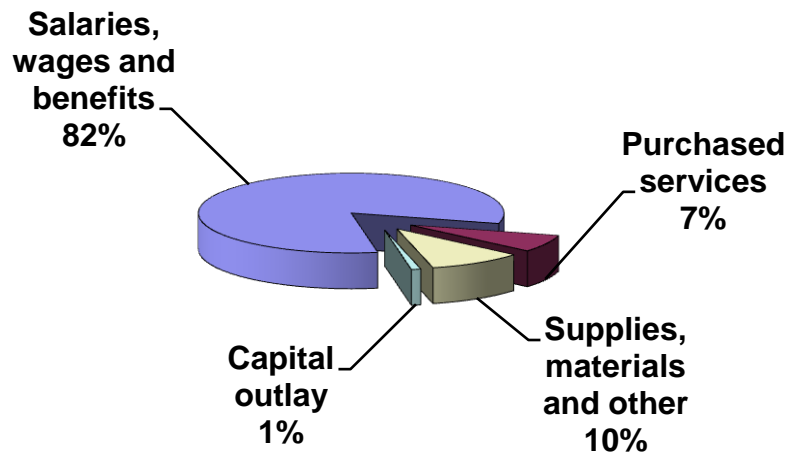
- Our General Fund decrease is mainly attributable to the increase in the cost of salaries and benefits.

MONTROSE COMMUNITY SCHOOLS

Management's Discussion & Analysis For the Year Ended June 30, 2008

- Our Special Revenue Funds decreased due to a transfer from the cafeteria fund to general fund for recoupment of indirect costs..
- Our Debt Service Funds decrease was a result of the repayment to the School Bond Loan Fund with which the District has an outstanding balance.

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



	<u>2008</u>	<u>2007</u>
<i>Expenditures by Object</i>		
Salaries, wages and fringe benefits	\$ 12,376,906	\$ 12,068,778
Purchased services	1,051,710	815,265
Supplies, materials, other	1,561,783	1,412,743
Capital outlay	89,453	145,194
Total	<u>\$ 15,079,852</u>	<u>\$ 14,441,980</u>

Expenditures have increased by \$637,872 or 4% from the prior year mostly due to an increase in salaries and benefits and purchased services.

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, Montrose Community Schools amends its budget during the school year. The June, 2008 amendment was the final budget for the fiscal year.

The variances between the actual revenue and the original and final amended budgets in the General Fund are due primarily to adjustments to unrestricted state aid as a result of the decrease in blended count on which state aid is based and adjustment to various state and federal grants.

The variances between the actual General Fund expenditures and the original and final amended budgets are primarily the result of employee salary and benefit adjustments to state and federal grant expenditures.

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

Capital Assets

At June 30, 2008, the School District has a net investment of \$6,771,662 in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 6% from last year.

	2008	2007
Land and improvements	\$ 49,925	\$ 49,925
Buildings and additions	13,377,613	13,377,613
Furniture and equipment	1,524,399	1,524,399
Vehicles and buses	1,021,175	1,021,175
	<hr/>	<hr/>
Total capital assets	15,973,112	15,973,112
Less accumulated depreciation	9,201,450	8,769,032
	<hr/>	<hr/>
Net capital assets	<u>\$ 6,771,662</u>	<u>\$ 7,204,080</u>

There were no new additions or disposals in the current year.

Debt

At the end of this year, the School District had \$10,318,805 in bonds outstanding versus \$10,897,145 in the previous year – a decrease of 5%.

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

MONTROSE COMMUNITY SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2008

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2009 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be less than the counts in 2008-2009. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Montrose Community Schools is in the process of renovating the Kuehn-Haven Middle School heating and cooling system at the cost of \$1.3 million dollars. \$600,000 is earmarked from general fund monies along with an installment purchase agreement between the vendor, the bank and the school district in the amount of \$800,000 with repayment over a 7-year period.

Requests For Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Superintendent
Montrose Community Schools
300 Nanita Drive
Montrose, MI 48457-0829

MONTROSE COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 3,257,107
Receivables:	
Accounts receivable	499
Due from other governmental units	2,736,987
Inventory	3,277
Prepaid expenses	2,189
Bond issuance costs less accumulated amortization of \$25,600	108,715
Capital assets less accumulated depreciation of \$9,201,450	<u>6,771,662</u>
Total assets	<u>12,880,436</u>
<u>Liabilities</u>	
Accounts payable	211,032
Accrued payroll and other liabilities	1,329,667
Accrued interest payable	168,282
State aid note payable	1,850,000
Long-term liabilities:	
Due within one year	611,683
Due in more than one year	<u>9,923,240</u>
Total liabilities	<u>14,093,904</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	(3,715,425)
Restricted for debt service	353,264
Unrestricted	<u>2,148,693</u>
Total net assets	<u>\$ (1,213,468)</u>

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		Governmental Activities
				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants/Contributions	
Primary government -				
Governmental activities:				
Instruction	\$ 8,965,991	\$ 0	\$ 1,844,009	\$ (7,121,982)
Support services	5,734,343	66,430	31,700	(5,636,213)
Community services	140,739	164,819	136,063	160,143
Food services	645,920	261,152	380,418	(4,350)
Athletics	313,871	71,280	0	(242,591)
Interest on long-term debt	538,260	0	0	(538,260)
Amortization of bond				
issuance costs (unallocated)	6,400	0	0	(6,400)
Depreciation (unallocated)	432,418	0	0	(432,418)
Total governmental activities	<u>\$ 16,777,942</u>	<u>\$ 563,681</u>	<u>\$ 2,392,190</u>	<u>(13,822,071)</u>
General revenues:				
Property taxes				1,777,981
State aid not restricted to specific purposes				11,661,287
Interest and investment earnings				111,254
Other revenues				<u>219,991</u>
Total general revenues				<u>13,770,513</u>
Change in net assets				(51,558)
Net assets - beginning of year				<u>(1,161,910)</u>
Net assets - end of year				<u>\$ (1,213,468)</u>

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS

Governmental Funds

Balance Sheet

June 30, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 2,807,114	\$ 449,993	\$ 3,257,107
Receivables:			
Accounts receivable	499	0	499
Due from other funds	0	6,061	6,061
Due from other governmental units	2,736,987	0	2,736,987
Inventory	0	3,277	3,277
Prepaid expenditures	<u>2,189</u>	<u>0</u>	<u>2,189</u>
 Total Assets	 <u><u>\$ 5,546,789</u></u>	 <u><u>\$ 459,331</u></u>	 <u><u>\$ 6,006,120</u></u>
 <u>Liabilities and Fund Balance</u>			
 <u>Liabilities</u>			
Accounts payable	\$ 211,032	\$ 0	\$ 211,032
Accrued payroll and other liabilities	1,325,859	3,808	1,329,667
State aid note payable	1,850,000	0	1,850,000
Due to other funds	<u>6,061</u>	<u>0</u>	<u>6,061</u>
 Total liabilities	 <u>3,392,952</u>	 <u>3,808</u>	 <u>3,396,760</u>
 <u>Fund Balance</u>			
Reserved for debt service	0	353,264	353,264
Unreserved:			
Undesignated	<u>2,153,837</u>	<u>102,259</u>	<u>2,256,096</u>
 Total fund balance	 <u>2,153,837</u>	 <u>455,523</u>	 <u>2,609,360</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 5,546,789</u></u>	 <u><u>\$ 459,331</u></u>	 <u><u>\$ 6,006,120</u></u>

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

Total fund balance - governmental funds \$ 2,609,360

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	\$ 15,973,112	
Accumulated depreciation	<u>(9,201,450)</u>	
		6,771,662

Other assets used in governmental activities are not financial
resources and therefore are not reported in governmental funds:

Bond issuance costs	134,315	
Accumulated amortization	<u>(25,600)</u>	
		108,715

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable		(10,318,805)
Compensated absences		(216,118)
Accrued interest payable is not included as a liability in governmental funds		<u>(168,282)</u>

Total net assets - governmental activities \$ (1,213,468)

See accompanying notes to financial statements

MONTROSE COMMUNITY SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008

	General	Nonmajor Governmental Funds	Totals
<u>Revenues</u>			
Local sources:			
Property taxes	\$ 621,077	\$ 1,156,904	\$ 1,777,981
Other	602,693	337,629	940,322
State sources	12,662,657	28,163	12,690,820
Federal sources	845,839	352,255	1,198,094
Interdistrict and other sources	119,167	0	119,167
	<u>14,851,433</u>	<u>1,874,951</u>	<u>16,726,384</u>
Total revenues			
	<u>14,851,433</u>	<u>1,874,951</u>	<u>16,726,384</u>
<u>Expenditures</u>			
Current:			
Instruction	8,956,051	0	8,956,051
Support services	5,727,986	0	5,727,986
Community services	140,739	0	140,739
Capital acquisitions	12,638	0	12,638
Food services	0	645,920	645,920
Athletics	0	313,871	313,871
Debt service:			
Principal	0	578,340	578,340
Interest	0	583,384	583,384
Total expenditures	<u>14,837,414</u>	<u>2,121,515</u>	<u>16,958,929</u>
Excess (deficiency) of revenues over expenditures	<u>14,019</u>	<u>(246,564)</u>	<u>(232,545)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	35,886	242,438	278,324
Operating transfers out	(242,438)	(35,886)	(278,324)
Total other financing sources (uses)	<u>(206,552)</u>	<u>206,552</u>	<u>0</u>
Net change in fund balance	(192,533)	(40,012)	(232,545)
Fund balance - beginning of year	<u>2,346,370</u>	<u>495,535</u>	<u>2,841,905</u>
Fund balance - end of year	<u>\$ 2,153,837</u>	<u>\$ 455,523</u>	<u>\$ 2,609,360</u>

See accompanying notes to financial statements

MONTROSE COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balance - total governmental funds	\$ (232,545)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(432,418)
Interest expense is recorded in the statement of activities when incurred; it is recorded in governmental funds when paid	45,124
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the statement of net assets	
Amortization expense	(6,400)
Repayment of bonds	578,340
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	<u>(3,659)</u>
Change in net assets of governmental activities	<u><u>\$ (51,558)</u></u>

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS
 Fiduciary Funds
 Statement of Fiduciary Net Assets
June 30, 2008

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>ASSETS</u>		
Cash and investments	<u>\$ 167,529</u>	<u>\$ 186,409</u>
<u>LIABILITIES</u>		
Due to student groups	<u>\$ 167,529</u>	<u>\$ 0</u>
<u>NET ASSETS</u>		
Reserved for scholarships		<u>\$ 186,409</u>

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Changes In Fiduciary Net Assets
For the Year Ended June 30, 2008

	<u>Private Purpose Trusts</u>
<u>Additions</u>	
Contributions and investment income	\$ 83,613
<u>Deductions</u>	
Scholarships	<u>74,880</u>
Change in net assets	8,733
Net assets - beginning of year	<u>177,676</u>
Net assets - end of year	<u><u>\$ 186,409</u></u>

See accompanying notes to financial statements

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montrose Community Schools (the “School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes – For the taxpayers of Montrose Community Schools, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

State Aid – For the fiscal year ended June 30, 2008, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average pupil membership counts taken in February and September of 2007.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2007 – August 2008. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2008 relating to state aid is \$2,300,565.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Montrose Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – BUDGETS (CONTINUED)

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

During the year ended June 30, 2008, the School District incurred revenues and expenditures in certain budgetary funds that were an unfavorable variance to amounts appropriated as follows:

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Amount</u>	<u>Variance</u>
General Fund:			
Revenues:			
State sources	\$ 12,670,340	\$ 12,662,657	\$ 7,683
Federal sources	954,325	845,839	108,486
Expenditures:			
Support services:			
Pupil	666,576	674,261	7,685
General administration	396,119	407,788	11,669
Operations and maintenance	1,529,883	1,536,369	6,486
Central services	228,414	245,147	16,733

NOTE 3 – CASH AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 3,257,107</u>	<u>\$ 353,938</u>	<u>\$ 3,611,045</u>

All of the District's cash is in deposits (checking and savings accounts and certificates of deposit).

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$3,562,075 of the School District's bank balance of \$3,862,075 was exposed to custodial credit risk because it was uninsured and uncollateralized.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 4 – CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 49,925	\$ 0	\$ 0	\$ 49,925
Capital assets being depreciated:				
Buildings and additions	13,377,613	0	0	13,377,613
Furniture and equipment	1,524,399	0	0	1,524,399
Buses and other vehicles	1,021,175	0	0	1,021,175
Subtotal	15,923,187	0	0	15,923,187
Accumulated depreciation:				
Buildings and additions	6,766,005	296,442	0	7,062,447
Furniture and equipment	1,182,961	93,809	0	1,276,770
Buses and other vehicles	820,066	42,167	0	862,233
Subtotal	8,769,032	432,418	0	9,201,450
Net capital assets being depreciated	7,154,155	(432,418)	0	6,721,737
Net capital assets	<u>\$ 7,204,080</u>	<u>\$ (432,418)</u>	<u>\$ 0</u>	<u>\$ 6,771,662</u>

Depreciation for fiscal year ended June 30, 2008 amounted to \$432,418. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A summary of inter-fund balances and transfers made during the year ended June 30, 2008 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 6,061	\$ 35,886	\$ 242,438
Special Revenue:				
Athletics	0	0	242,438	0
Cafeteria	5,794	0	0	35,886
Debt Service	267	0	0	0
	<u>\$ 6,061</u>	<u>\$ 6,061</u>	<u>\$ 278,324</u>	<u>\$ 278,324</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, (3) payments between funds are made. Transfers are used to supplement athletic operational costs and indirect costs.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2008 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid	\$ 2,300,565
Federal grants	376,681
GISD	<u>59,741</u>
	<u>\$ 2,736,987</u>

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements and Payments	Balance June 30, 2008	Amount Due Within One Year
Bonds payable	\$ 10,897,145	\$ 0	\$ 578,340	\$ 10,318,805	\$ 611,683
Compensated absences	212,459	3,659	0	216,118	0
Total	<u>\$ 11,109,604</u>	<u>\$ 3,659</u>	<u>\$ 578,340</u>	<u>\$ 10,534,923</u>	<u>\$ 611,683</u>

Bonds payable at June 30, 2008 is comprised of the following issues:

\$401,920 Durant Resolution bonds due in
annual installments of \$23,432 to \$136,683
through November 24, 2013; original stated
interest at 4.76% \$ 237,319

\$7,925,000 Non-refunded School Building & Site due
in annual installments of \$0 to \$500,000 through
May 1, 2022; interest at 6.00% to 6.20% 5,000,000

\$4,555,000 School Building & Site bonds due in
annual installments of \$460,000 to \$500,000 through
May 1, 2026; interest at 2.75% to 4.25% 3,965,000

School bond loans have no determined schedule for
repayment as the school district is not required to repay
the loan until annual tax collections exceed the annual debt
service payment requirements. The interest rate is based on
the average rate paid by the state on debt obligations issued
to finance the loan program.

1,116,486

Total Bonds Payable \$ 10,318,805

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the termination payoff rate for eligible employees times the number of unused days. Vacation payouts are computed using an average daily rate times the number of days. At June 30, 2008, the amount of \$216,118 has been recorded in the district-wide financial statements as a liability for compensated absences.

The annual requirements to amortize bonds (excluding school bond loan) outstanding as of June 30, 2008, including interest payments, are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 611,683	\$ 512,689	\$ 1,124,372
2010	513,432	449,092	962,524
2011	524,548	432,052	956,600
2012	525,716	410,883	936,599
2013	526,940	389,658	916,598
2014-2018	2,500,000	1,476,880	3,976,880
2019-2023	2,500,000	716,880	3,216,880
2024-2026	1,500,000	126,376	1,626,376
	<u>\$ 9,202,319</u>	<u>\$ 4,514,510</u>	<u>\$ 13,716,829</u>

MONTROSE COMMUNITY SCHOOLS

Notes to Financial Statements For the Year Ended June 30, 2008

NOTE 8 - SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligations for operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation notes	<u>\$ 1,300,000</u>	<u>\$ 1,850,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,850,000</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

MONTROSE COMMUNITY SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74% for the period from July 1, 2007 through September 30, 2007 and 16.72% for the period from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were \$1,456,718, \$1,471,153 and \$1,391,216, respectively.

Postemployment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE 11 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 12 - ECONOMIC DEPENDENCY

The School District received approximately 85% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

MONTROSE COMMUNITY SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Local sources	\$ 875,748	\$ 1,213,003	\$ 1,223,770
State sources	12,666,979	12,670,340	12,662,657
Federal sources	827,214	954,325	845,839
Interdistrict and other sources	191,662	119,578	119,167
Total revenues	14,561,603	14,957,246	14,851,433
<u>Expenditures</u>			
Instruction:			
Basic programs	6,675,601	6,743,556	6,708,107
Added needs	2,162,050	2,362,024	2,247,944
Support services:			
Pupil	537,238	666,576	674,261
Instructional staff	554,827	638,463	614,209
General administration	316,732	396,119	407,788
School administration	995,803	980,721	971,369
Business services	475,618	511,633	504,521
Operations and maintenance	1,621,183	1,529,883	1,536,369
Transportation	725,933	785,980	773,322
Central services	192,404	228,414	245,147
Other supporting services	0	1,000	1,000
Community services	117,292	141,567	140,739
Facilities acquisition	0	16,850	12,638
Total expenditures	14,374,681	15,002,786	14,837,414
Excess (deficiency) of revenues over expenditures	186,922	(45,540)	14,019
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	0	0	35,886
Operating transfers out	(436,500)	(250,197)	(242,438)
Total other financing sources (uses)	(436,500)	(250,197)	(206,552)
Net change in fund balance	(249,578)	(295,737)	(192,533)
Fund balance - beginning of year	2,346,370	2,346,370	2,346,370
Fund balance - end of year	\$ 2,096,792	\$ 2,050,633	\$ 2,153,837

MONTROSE COMMUNITY SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Fund</u>	
	<u>Cafeteria</u>	<u>Athletics</u>	<u>1997/2005 Debt</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ 95,996	\$ 1,000	\$ 352,997	\$ 449,993
Due from other funds	5,794	0	267	6,061
Inventory	3,277	0	0	3,277
Total Assets	<u>\$ 105,067</u>	<u>\$ 1,000</u>	<u>\$ 353,264</u>	<u>\$ 459,331</u>
<u>Liabilities</u>				
Due to students	\$ 3,808	\$ 0	\$ 0	\$ 3,808
Due to other funds	0	0	0	0
Total Liabilities	<u>3,808</u>	<u>0</u>	<u>0</u>	<u>3,808</u>
<u>Fund Balance</u>				
Reserved for debt service	0	0	353,264	353,264
Unreserved - Undesignated	101,259	1,000	0	102,259
Total fund balance	<u>101,259</u>	<u>1,000</u>	<u>353,264</u>	<u>455,523</u>
Total liabilities and fund balance	<u>\$ 105,067</u>	<u>\$ 1,000</u>	<u>\$ 353,264</u>	<u>\$ 459,331</u>

MONTROSE COMMUNITY SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Fund</u>	
	<u>Cafeteria</u>	<u>Athletics</u>	<u>1997/2005 Debt</u>	<u>Total</u>
<u>Revenues</u>				
Local	\$ 261,721	\$ 71,280	\$ 1,161,532	\$ 1,494,533
State	28,163	0	0	28,163
Federal	352,255	0	0	352,255
Total revenues	<u>642,139</u>	<u>71,280</u>	<u>1,161,532</u>	<u>1,874,951</u>
<u>Expenditures</u>				
Current:				
Salaries	200,715	197,840	0	398,555
Employee benefits	56,606	47,019	0	103,625
Purchased services	11,367	34,558	0	45,925
Supplies and materials	363,614	26,044	0	389,658
Other	3,263	8,410	0	11,673
Capital outlay	10,355	0	0	10,355
Debt service:				0
Principal	0	0	578,340	578,340
Interest	0	0	583,384	583,384
Total expenditures	<u>645,920</u>	<u>313,871</u>	<u>1,161,724</u>	<u>2,121,515</u>
Excess (deficiency) of revenues over expenditures	<u>(3,781)</u>	<u>(242,591)</u>	<u>(192)</u>	<u>(246,564)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	242,438	0	242,438
Operating transfers out	(35,886)	0	0	(35,886)
Total other financing sources	<u>(35,886)</u>	<u>242,438</u>	<u>0</u>	<u>206,552</u>
Net change in fund balance	(39,667)	(153)	(192)	(40,012)
Fund balance - beginning of year	<u>140,926</u>	<u>1,153</u>	<u>353,456</u>	<u>495,535</u>
Fund balance - end of year	<u>\$ 101,259</u>	<u>\$ 1,000</u>	<u>\$ 353,264</u>	<u>\$ 455,523</u>

MONTROSE COMMUNITY SCHOOLS
Schedule Of Bonded Debt
1998 School Improvement Bonds
For the Year Ended June 30, 2008

<u>PURPOSE</u>	The bonds were issued for the purpose of improvement to existing school facilities.		
<u>DATE OF ISSUE</u>	November 24, 1998		
<u>INTEREST PAYABLE</u>	May 15 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 401,920
<u>AMOUNT REDEEMED</u>			
	During prior years	\$ 164,601	
	During current year	<u>0</u>	<u>164,601</u>
<u>BALANCE OUTSTANDING - JUNE 30, 2008</u>			<u><u>\$ 237,319</u></u>

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 136,683	\$ 52,951	\$ 189,634
2010	23,432	4,792	28,224
2011	24,548	3,676	28,224
2012	25,716	2,507	28,223
2013	<u>26,940</u>	<u>1,282</u>	<u>28,222</u>
	<u><u>\$ 237,319</u></u>	<u><u>\$ 65,208</u></u>	<u><u>\$ 302,527</u></u>

MONTROSE COMMUNITY SCHOOLS
Schedule Of Bonded Debt
2000 School Building and Site Bonds
For the Year Ended June 30, 2008

<u>PURPOSE</u>	The bonds were issued for the purpose of acquisition, construction, and improvement of major capital facilities.		
<u>DATE OF ISSUE</u>	April 15, 1997		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>	\$ 12,480,000		
<u>AMOUNT REDEEMED</u>			
During prior years	\$7,480,000		
During current year	<u>0</u>	<u>7,480,000</u>	
<u>BALANCE OUTSTANDING - JUNE 30, 2008</u>			<u><u>\$ 5,000,000</u></u>

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 0	\$ 305,000	\$ 305,000
2010	0	305,000	305,000
2011	0	305,000	305,000
2012	0	305,000	305,000
2013	500,000	305,000	805,000
2014	500,000	274,000	774,000
2015	500,000	243,000	743,000
2016	500,000	212,000	712,000
2017	500,000	181,000	681,000
2018	500,000	150,000	650,000
2019	500,000	120,000	620,000
2020	500,000	90,000	590,000
2021	500,000	60,000	560,000
2022	500,000	30,000	530,000
	<u><u>\$ 5,000,000</u></u>	<u><u>\$2,885,000</u></u>	<u><u>\$ 7,885,000</u></u>

MONTROSE COMMUNITY SCHOOLS
Schedule Of Bonded Debt
2005 Refunded School Building and Site Bonds
For the Year Ended June 30, 2008

<u>PURPOSE</u>	The 1997 bonds were partially refunded, the original bonds were issued for the purpose of acquisition, construction, and improvement of major capital facilities.		
<u>DATE OF ISSUE</u>	January 24, 2005		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 4,555,000
<u>AMOUNT REDEEMED</u>			
	During prior years	\$ 130,000	
	During current year	<u>460,000</u>	<u>590,000</u>
<u>BALANCE OUTSTANDING - JUNE 30, 2008</u>			<u><u>\$ 3,965,000</u></u>

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 475,000	\$ 154,738	\$ 629,738
2010	490,000	139,300	629,300
2011	500,000	123,376	623,376
2012	500,000	103,376	603,376
2013	0	83,376	83,376
2014	0	83,376	83,376
2015	0	83,376	83,376
2016	0	83,376	83,376
2017	0	83,376	83,376
2018	0	83,376	83,376
2019	0	83,376	83,376
2020	0	83,376	83,376
2021	0	83,376	83,376
2022	0	83,376	83,376
2023	500,000	83,376	583,376
2024	500,000	62,876	562,876
2025	500,000	42,250	542,250
2026	500,000	21,250	521,250
	<u><u>\$ 3,965,000</u></u>	<u><u>\$ 1,564,302</u></u>	<u><u>\$ 5,529,302</u></u>



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

October 17, 2008

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Board of Education
Montrose Community Schools
Montrose , Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montrose Community Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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WEINLANDER FITZHUGH

To the Board of Education
Montrose Community Schools
October 17, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montrose Community Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

This report is intended solely for the information of the Board of Education, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh



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October 17, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Montrose Community Schools
Montrose , Michigan

Compliance

We have audited the compliance of Montrose Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Montrose Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Montrose Community Schools' management. Our responsibility is to express an opinion on Montrose Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montrose Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montrose Community Schools' compliance with those requirements.

In our opinion, Montrose Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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To the Board of Education
Montrose Community Schools
October 17, 2008

Internal Control Over Compliance

The management of Montrose Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Montrose Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

MONTROSE COMMUNITY SCHOOLS
Schedule Of Findings And Questioned Costs
For the Year Ended June 30, 2008

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified opinion

Internal control over financial reporting:

•Material weakness(es) identified? ☐ YES ☒ NO

•Significant deficiency(ies) identified not considered to be material weaknesses? ☐ YES ☒ NO

Noncompliance material to financial statements noted? ☐ YES ☒ NO

Federal Awards

Internal Control over major programs:

•Material weakness(es) identified? ☐ YES ☒ NO

•Significant deficiency(ies) identified not considered to be material weaknesses? ☐ YES ☒ NO

Type of auditor’s report issued on compliance of major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ☐ YES ☒ NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Flowthrough - IDEA
84.027	Service Provider Self-Review
84.173	Flowthrough - IDEA
84.367	Title II - Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ YES ☐ NO

MONTROSE COMMUNITY SCHOOLS
Schedule Of Findings And Questioned Costs
For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no matters reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters reported.

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2008
<u>U.S. Department of Education</u>								
Passed through Michigan								
Department of Education:								
ECIA Title I -								
Educationally Deprived	84.010							
715300607		\$ 234,931	\$ 185,495	\$ 102,769	\$ 0	\$ 124,197	\$ 49,436	\$ 28,008
815300708		272,792	0	0	0	163,557	203,574	40,017
			<u>185,495</u>	<u>102,769</u>	<u>0</u>	<u>287,754</u>	<u>253,010</u>	<u>68,025</u>
Title V -								
LEA Allocation	84.298							
702500607		1,582	1,160	0	0	422	422	0
802500708		2,692	0	0	0	1,334	2,692	1,358
			<u>1,160</u>	<u>0</u>	<u>0</u>	<u>1,756</u>	<u>3,114</u>	<u>1,358</u>
Technology Literacy								
Challenge Grant								
742900607	84.318	2,412	214	214	0	2,412	2,198	0
842900708		3,095	0	0	0	2,095	2,508	413
			<u>214</u>	<u>214</u>	<u>0</u>	<u>4,507</u>	<u>4,706</u>	<u>413</u>
Title II -								
Improving Teacher quality	84.367							
705200607		65,730	65,730	28,802	0	28,802	0	0
805200708		67,475	0	0	0	60,737	67,475	6,738
			<u>65,730</u>	<u>28,802</u>	<u>0</u>	<u>89,539</u>	<u>67,475</u>	<u>6,738</u>
Service Provider Self-Review								
80440	84.027	4,500	0	0	0	0	4,500	4,500
Passed through Genesee ISD								
Flowthrough-IDEA	84.027							
704500607		420,280	395,299	180,918	0	0	24,981	0
804500708		452,495	0	0	0	120,805	407,924	287,119
			<u>395,299</u>	<u>180,918</u>	<u>0</u>	<u>120,805</u>	<u>432,905</u>	<u>287,119</u>
Preschool Initiative	84.173							
070490-TS		681	0	0	0	0	681	0
804600708		15,965	0	0	0	3,854	12,382	8,528
			<u>0</u>	<u>0</u>	<u>0</u>	<u>3,854</u>	<u>13,063</u>	<u>8,528</u>
Total Special Education Cluster			<u>395,299</u>	<u>180,918</u>	<u>0</u>	<u>124,659</u>	<u>445,968</u>	<u>295,647</u>
Secondary Regional Allocation	84.048	15,000	0	0	0	11,077	16,842	5,765
073520-7012-15								
Safe & Drug Free Learning	84.186							
2007/2008		1,500	0	0	0	1,427	1,427	0

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2008
Total U.S. Department of Education			<u>\$ 647,898</u>	<u>\$ 312,703</u>	<u>\$ 0</u>	<u>\$ 520,719</u>	<u>\$ 797,042</u>	<u>\$ 382,446</u>
<u>U.S. Department of Labor</u>								
Passed Through Genesee ISD Medical Assistance Program	93.778	8,845	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,845</u>	<u>8,845</u>	<u>0</u>
<u>U.S. Department of Agriculture</u>								
Child Nutrition Cluster:								
Passed through Michigan Department of Education:								
National School Breakfast 1970	10.553	60,805	<u>0</u>	<u>0</u>	<u>0</u>	<u>60,805</u>	<u>60,805</u>	<u>0</u>
National School Lunch 1950/1960	10.555	244,098	<u>0</u>	<u>0</u>	<u>0</u>	<u>247,582</u>	<u>247,582</u>	<u>0</u>
Total Child Nutrition Cluster			<u>0</u>	<u>0</u>	<u>0</u>	<u>308,387</u>	<u>308,387</u>	<u>0</u>
Food Distribution Entitlement Commodities	10.550	43,868	<u>0</u>	<u>0</u>	<u>0</u>	<u>43,868</u>	<u>43,868</u>	<u>0</u>
Passed through Genesee ISD State Administrative Matching Grants for Food Stamp Program Physical Education & Nutrition Pro	10.561	39,952	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,657</u>	<u>39,952</u>	<u>27,295</u>
Total U.S. Department of Agriculture			<u>0</u>	<u>0</u>	<u>0</u>	<u>352,255</u>	<u>392,207</u>	<u>27,295</u>
			<u>\$ 647,898</u>	<u>\$ 312,703</u>	<u>\$ 0</u>	<u>\$ 881,819</u>	<u>\$ 1,198,094</u>	<u>\$ 409,741</u>

Notes:

See accompanying notes to financial statements.

MONTROSE COMMUNITY SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montrose Community Schools and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations.

NOTE 2 - OTHER DISCLOSURES

Management has utilized the Grants Section Auditors Report and Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.



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October 17, 2008

To the Board of Education
Montrose Community Schools

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montrose Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Montrose Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Montrose Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Montrose Community Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB)

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Board of Education
Montrose Community Schools
October 17, 2008
Page 2

Circular A-133 Compliance Supplement” applicable to each of its major federal programs for the purpose of expressing an opinion on Montrose Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Montrose Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on July 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Montrose Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:



WEINLANDER FITZHUGH

Board of Education
Montrose Community Schools
October 17, 2008
Page 3

Management's estimate of depreciation expense and accumulated depreciation is based on its experience of estimated useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the liability for compensated absences is based on the amount of paid time off that would be paid out to an employee upon leaving the District. We evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of budgets in Note 2 to the financial statements due to the pressures of the State of Michigan's budget situation and declining enrollment. The budgets used by the District are a tool for planning the District's ability to finance expenditures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



WEINLANDER FITZHUGH

Board of Education
Montrose Community Schools
October 17, 2008
Page 4

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Montrose Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh